

Message Text

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44

ACTION NEA-09

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-03 H-02 INR-07 L-02

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02 OPIC-03

CIEP-01 LAB-04 SIL-01 OMB-01 /081 W

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R 081040Z MAY 75

FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC 016

INFO AMCONSUL KARACHI

AMCONSUL LAHORE

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E.O. 11652: N/A

TAGS: ECON/EFIN/EIND, PK

SUBJECT: PROVINCIAL AUTHORITIES IMPOSE PRICE CEILINGS
ON WIDE RANGE OF CONSUMER ITEMS

REFERENCE: (A) ISLAMABAD 3133

(B) LAHORE 438

SUMMARY. FOLLOWING GOP ANNOUNCEMENT OF RATION-SHOP PRICE INCREASES FOR WHEAT AND OTHER ITEMS ON APRIL 7, PROVINCIAL AUTHORITIES INSTITUTED WIDE RANGING PRICE CONTROLS OVER OTHER CONSUMER GOODS. ENFORCEMENT IN THE RAWALPINDI-ISLAMABAD AREA HAS BEEN SUPRISINGLY EFFECTIVE, BUT ONE CONSEQUENCE OF THIS IS THAT SOME CONTROLLED CONSUMER GOODS ITEMS ARE NOW IN SHORT SUPPLY. WE DOUBT THAT THE PROVINCIAL AUTHORITIES CAN SUSTAIN THESE CONTROLS GIVEN THE INFLATION RATE OF 20 PERCENT. END SUMMARY.

1. IMPOSITION OF THESE CONTROLS WAS CLEARLY IN RESPONSE TO THE ADVERSE PUBLIC REACTION TO THE RATION SHOP PRICE INCREASES, HIGHLIGHTED BY DEMONSTRATIONS AND PUBLIC PROTESTS
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IN MANY CITIES. PROVINCIAL OFFICIAL SHAVE MADE A STRONG

EFFORT TO PUBLICIZE THE PRICE FREEZE. UNDER LAWS WHICH DATE BACK TO BRITISH RULE, LOCAL MAGISTRATES ARE EMPOWERED TO FIX PRICES ON ALMOST ALL RETAIL ITEMS AND TO REQUIRE SHOPKEEPERS AND MERCHANTS TO POST FIXED PRICES. ENFORCEMENT OF THESE MEASURES IS ALSO RESPONSIBILITY OF LOCAL MAGISTRATES.

2. THESE PRICE CEILINGS APPEAR TO HAVE BEEN IMPOSED OVER A WIDER RANGE OF ITEMS THAN AT ANY TIME SINCE INDEPENDENCE. THEY INCLUDE MOST GROCERY AND SMALL HARDWARE ITEMS. THE FREEZE HAS BEEN ERRATICALLY, BUT TIGHTLY ENFORCED IN MOST AREAS, ESPECIALLY RAWALPINDI-ISLAMABAD. ONE CONSEQUENCE OF THIS IS THAT WE ARE NOW GETTING REPORTS THAT MANY OF THE CONTROLLED ITEMS ARE NO LONGER AVAILABLE IN MANY SHOPS. RETAIL MERCHANTS ARE NOT HANDLING ITEMS ON WHICH ENFORCED PROFIT MARGINS ARE INADEQUATE. ENFORCEMENT HAS BEEN TIGHT ENOUGH THAT OPEN BLACKMARKETING IS NOT YET WIDESPREAD.

3. AT THE TIME PRICE CEILINGS WERE IMPOSED, GOP ECONOMISTS RECOGNIZED THE FREEZE AS ESSENTIALLY A POLITICAL MEASURE, ADOPTED TO MOLLIFY STRONG PUBLIC REACTION TO THE RATION SHOP PRICE INCREASES. CONTINUED VIGILANCE OF LOCAL AUTHORITIES IN ENFORCING THE CEILINGS HAS BEEN A SURPRISE. THE ENFORCEMENT UNDOUBTEDLY OWES MUCH TO THE POPULARITY OF PRICE CEILINGS AMONG THE ECONOMICALLY UNSOPHISTICATED GENERAL PUBLIC, SINCE MARKET LINKAGES BETWEEN PRICE AND PRODUCTION ARE NOT WIDELY UNDERSTOOD.

4. WE DO NOT THINK THAT THE PRICE FREEZE CAN BE SUSTAINED FOR A LONG PERIOD OF TIME. TO DO SO WILL REQUIRE A LARGE ENFORCEMENT BUREAUCRACY AND WILL INEVITABLY LEAD TO WIDE-SPREAD SHORTAGES AND A BLACK MARKET.
BYROADE

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